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C O N F I D E N T I A L CARACAS 001550

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TAGS: [ENRG](#) [ECON](#) [PREL](#) [VE](#) [AR](#)
SUBJECT: VENEZUELA'S FUEL DEAL WITH ARGENTINA

Classified By: Economic Counselor Richard M. Sanders. Reason 1.4(b).

Summary

1. (SBU) Venezuela and Argentina are moving forward with a USD 200 million deal under which state oil corporation PDVSA sells fuel oil and diesel fuel to Argentine firms to ease its energy crisis, and Argentine companies sell a range of food products and manufactures to the GOV. In addition to simply making a sale, the GOV may hope to gain political points in Buenos Aires, while making at least a gesture towards diversifying oil sales away from the U.S. End Summary.

We Send You Fuel

2. (SBU) On May 10, Caracas newspapers announced that the first load of fuel oil had arrived in Argentina which had been purchased under an agreement signed on April 6 between Venezuelan Minister of Mining and Energy Rafael Ramirez and Argentine Minister of Planning Julio de Vido. That same day econcouns met with Alberto Alvarez, the Argentine Embassy's Economic-Commercial Counselor, who outlined the scope of the deal. Noting that Argentina faced a severe power shortage, as a result of its post-default growth surge, together with a failure to provide adequate incentives for natural gas production, he said that the short-term solution was to re-open closed power plants which could run on fuel oil and diesel fuel.

3. (SBU) The deal, he said, entailed the purchase of USD 200 million in fuel oil and diesel fuel, which would be sold by PDVSA to a private Argentine entity called CAMMESA (Wholesale Electricity Market Management Company), which would in turn sell it to the various companies with mothballed power plants. The amount sold would be 8 million barrels of fuel oil and 1 million barrels of diesel over the next six months (the Southern Hemisphere winter). PDVSA would charge the market price for these products. However, it would agree to payment within 45 days instead of the seven or ten days which is normal in such purchases.

You Send Us Other Products

4. (SBU) Alvarez said that CAMMESA would take the money earned from the sale of the fuel oil and diesel fuel and put it into a trust fund to be jointly administered by PDVSA, the Economic and Social Development Bank (BANDES), which is owned by the GOV, and the Foreign Trade and Investment Bank (BICE) owned by the GOA. The money would be used for the purchase of Argentine products by Venezuelan ministries and state corporations. PDVSA would purchase a range of metal products such as steel tubes and valves. The Agricultural Supply Corporation (CASA), an arm of the GOV's Ministry of Agriculture, would buy products such as powdered milk, sunflower and soybean oil, yellow corn and beef. (CASA is the vehicle for supplying the GOV's MERCAL program of state-run food markets in low income neighborhoods.) The Office of the Minister of State for Special Economic Zones (a rural development agency) will buy live cattle. The Ministry of Health would buy medical supplies for state hospitals. Alvarez said that the price of the various products to be sold would be set by a bidding process.

Comment: Buying Friends?

5. (C) This kind of creaky, state-to-state counter-trade arrangement seems like a throwback to the 1960's or earlier. Still, as outlined by Argentine diplomat Alvarez, this deal seems fairly neutral from an economic point of view. Argentina gets needed fuel with a longer repayment period than it would otherwise have, and some new access for its food and other products to the Venezuelan state sector.

Venezuela finds a new market for petroleum products.

However, we also see some political angles here. PDVSA is largely dependent on the U.S. market, a situation which has never sat well with Chavez. This sale to Argentina, while hardly affecting the overall structure of PDVSA's marketing, is at least a down payment on further diversification. The purchase in turn of other products from Argentina fits in nicely with the GOV's ideological predilection for south-south trade, and in particular with the MERCOSUR countries (again as opposed to the U.S.).

16. (C) And by coming to Argentina's rescue at its hour of need, the GOV may be hoping to purchase some good will in Buenos Aires. When Kirchner took office, there was considerable speculation here that he would have a close rapport with Chavez as a fellow leftist. This has proven not to be the case. Argentina has kept a low profile here, and while hardly anti-Chavez, it has shown its support for the democratic process, most notably by Kirchner's meeting with representatives of Venezuela's opposition during his last visit here. Petro-diplomacy has a long tradition in Venezuela, although it has usually been used with the Caribbean and Central American countries, who receive preferential prices for Venezuelan oil. It remains to be seen whether Venezuelan fuel oil can be used to warm relations with Argentina as well as Argentine homes. We note that according to Alvarez, if Argentina's energy crisis is not resolved by next year, it may want to renew the current deal.

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